

DRAFT

STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF EXAMINATION

OF

WASATCH CREST INSURANCE COMPANY

OF

SALT LAKE CITY, UTAH

**AS OF
DECEMBER 31, 2001**

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June 16, 2003

Honorable Alfred W. Gross, Chairman
NAIC Financial Condition (E) Committee
Insurance Commissioner
State of Virginia
Richmond, Virginia

Honorable John Morrison
Secretary, Western Zone NAIC
Director of Insurance
State of Montana
Helena, Montana

Honorable Merwin U. Stewart, Commissioner
Utah Insurance Department
State of Utah
Salt Lake City, Utah

Dear Sirs:

In accordance with your instructions and in compliance with the insurance laws of the State of Utah, an examination of the financial condition and business affairs of

WASATCH CREST INSURANCE COMPANY
Salt Lake City, Utah

hereinafter referred to as the "Company" or "WCI", was conducted as of December 31, 2001.

SCOPE OF EXAMINATION

The last examination was made as of December 31, 1998. The current examination covers the period from January 1, 1999 through December 31, 2001, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination. The current examination was conducted under the authority granted the Commissioner by Utah Code Annotated (U.C.A.) §31A-2-203, and was conducted in accordance with the procedures set forth in the National Association of Insurance Commissioners (NAIC) Examiners Handbook which was also authorized by U.C.A. §31A-2-203(6)(c).

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted during the examination period, verification of the payment of premium taxes to the states in which it was licensed, and a determination of its financial condition as of December 31, 2001. Assets were verified and valued, and liabilities were determined or estimated in accordance with rules and procedures as prescribed by the State of Utah, the Company's state of domicile. The examination was conducted in accordance with the generally accepted standards and procedures of regulatory authorities relating to such examinations. It included tests of the accounting records and a review of the Company's affairs and practices to the extent deemed necessary.

The Company retained the services of Deloitte & Touche, a certified public accounting firm to audit its financial records for the years under examination. However, the firm did not begin the audit for 2001 until subsequent to the start date of the current examination and as a result, little reliance was placed in the work of the accounting firm.

The actuarial portion of the examination was performed by the consulting actuarial firm of Taylor-Walker & Associates, Inc. Their examination included a review of reserves for losses, loss adjustment expenses, unearned premiums, and reinsurance payable on projected losses.

A certificate of representation attesting to the Company's ownership of all assets and to the non-existence of unrecorded liabilities was signed by, and received from, the Company's management during the examination.

SUMMARY OF PRIOR EXAMINATION COMMENTS AND/OR RECOMMENDATIONS

The previous examination had the following six comments and/or recommendations. Following the individual examination report comment/recommendation is the status of the comment/recommendation.

- (1) There was a change in control of the Company's affiliates. (AFFILIATED COMPANIES)

Additional comments can be found under the HISTORY heading of this examination.

- (2) Under previous management, the Company entered into a loss portfolio transfer agreement as a retroactive reinsurance contract. This agreement provided coverage up to \$12,000,000. The cost of this coverage was \$7,895,000. Options for additional units of coverage were exercised. The Company entered into an agreement with Swiss Reinsurance Company by which the Company shall retain \$12,000,000 of the ultimate net loss and Swiss Reinsurance Company shall extend the coverage provided from the loss portfolio agreement from \$12,000,000 to \$15,000,000. (REINSURANCE)

No additional comment/follow-up was required for purposes of this examination.

- (3) As of December 31, 1998, the Company's agreement with its investment custodian was not in compliance with U.A.C. Rule R590-178. However, a new agreement executed April 19, 1999, was in compliance. (NOTES TO FINANCIAL STATEMENTS)

No additional comment/follow-up was required for purposes of this examination.

- (4) Information provided by those responsible for maintaining the electronic data processing equipment and informational systems used by the Company, indicated that business mission critical systems and non-critical applications were Year 2000 compliant. (ACCOUNTS AND RECORDS)

There was no indication that the Company experienced any difficulties as a result of Year 2000.

- (5) The Company was not in compliance with the regulatory requirement for reporting unclaimed property contained in U.C.A. § 31A-4-110. (ACCOUNTS AND RECORDS)

Additional comments can be found under the ACCOUNTS AND RECORDS heading of this examination.

- (6) The Company's minimum capital requirement at December 31, 1998, was \$2,000,000. The authorized control level risk-based capital was \$1,136,370. The Company's total adjusted capital was \$4,331,578. (NOTES TO FINANCIAL STATEMENTS)

The Company filed the 2001 annual statement reflecting total adjusted capital of \$3,079,782, and authorized control level risk-based capital of \$2,243,201. This placed the Company at the Regulatory Action Level. As of December 31, 2001, the Company's total adjusted capital, pursuant to examination was determined to be \$(5,819,249). Additional comments can be found under the heading CAPITAL AND SURPLUS of this examination report.

HISTORY

General

The Company was incorporated on September 30, 1886, under the laws of the Territory of Utah and commenced business in October 1886, under the name of Home Fire Insurance Company of Utah. In March 1918, the name was changed to Utah Home Fire Insurance Company. Over the years, the Corporation of the President of the Church of Jesus Christ of Latter Day Saints purchased control of the Company. On February 2, 1972, Deseret Management Corporation, a wholly owned subsidiary of the Church, acquired controlling interest in the Company. On December 31, 1984, Beneficial Life Insurance Company (Beneficial) acquired 126,661 shares of the Company's stock from Deseret Management Corporation and bought 71,852 shares of authorized and un-issued stock of the Company for \$125 per share. On February 7, 1985, Beneficial purchased an additional 538 shares. From 1985 through 1989, Beneficial acquired 944 shares from minority shareholders. On April 1, 1993, the Company executed a plan of re-capitalization, under which Beneficial surrendered to the Company 100,000 of the shares which it owned and \$7,000,000 in 1991 issued contribution notes. Deseret Management Corporation acquired a direct interest in the Company by exchanging its two surplus debentures in the amounts of \$90,000,000 and \$37,000,000 for 1,900,000 shares of the Company's common stock. In September 1993, Beneficial transferred its remaining 99,995 shares to Deseret Management Corporation.

Effective October 31, 1998, the Company was acquired by Wasatch Crest Group, Inc. (WCGI) from Deseret Management Corporation. Effective December 23, 1998, the Company changed its name from Utah Home Fire Insurance Company to Wasatch Crest Insurance Company. Amended Articles of Incorporation and Amended Bylaws were approved by the Utah Department of Insurance on January 6, 1999 and by the Utah Division of Corporations and Commercial Code on January 29, 1999. The Company has operated continuously since its organization.

The Company was placed under supervision on October 16, 2002, due to financial insolvency.

Capital Stock

The Company had authorized 2,250,000 shares of common stock with a par value of \$10.00 per share. As of December 31, 2001, there were 225,000 issued and outstanding shares. All shares were issued to WCGI. Additional comments can be found under the Common capital stock heading of this report.

Dividends to Policyholders

The Company paid no dividends to policyholders during the period covered by this examination.

Management

As of December 31, 2001, the following individuals were serving as members of the board of directors:

<u>Director</u>	<u>Address</u>
John A. Igoe	Park City, Utah
Judy K. Adlam	Mill Valley, California
Dennis T. Larson	Highland, Utah
Charles W. Wilcox	Bend, Oregon (Resigned 1/31/02)
Sherilynn Erickson	Murray, Utah

Officers serving at December 31, 2001, were as follows:

<u>Officer</u>	<u>Office</u>
John A. Igoe	Chief Executive Officer
Charles E. Wilcox	President (Resigned 1/31/02)
Dennis T. Larson	Executive Vice President, Chief Financial Officer, Treasurer and Secretary
Sherilynn Erickson	Vice President & Controller
Keith D. Laughlin	Vice President – Underwriting (Resigned 1/31/02)
Barbara C. Lincoln	Regional Vice President
Gary R. Purdom	Regional Vice President (Resigned 1/31/02)
Chris H. Utterback	Regional Vice President (Resigned 1/31/02)

Conflict of Interest Procedure

The Company was unable to produce conflict of interest statements during the examination.

Corporate Records

A review was made of the corporate records for the period covered by this examination. The minutes reviewed indicated that the deliberation and actions of the various corporate bodies were in compliance with the Utah Insurance Code. The examination report generated by the Utah Insurance Department as of December 31, 1998, was reviewed by the board of directors on August 10, 2000.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

Pursuant to a Request for Waiver of Form A, accepted by the Utah Department of Insurance under order dated December 19, 2000, Wasatch Crest Casualty Insurance Company (WCC) was merged into WCI. Both entities were wholly owned subsidiaries of Wasatch Crest Group, Inc, (WCGI). WCI was the surviving entity from the merger.

Effective June 30, 1999, the Company entered into a 95% quota share agreement with Wasatch Crest Mutual Insurance Company, for the assumption of workers compensation policies. Additional comments can be found under the REINSURANCE heading of this report.

Effective January 1, 2001, the Company entered into a casualty retrocession agreement with Swiss Reinsurance America Corporation, whereby the Company assumed certain business from Swiss

Reinsurance America Corporation which had been assumed from North American Specialty Insurance Company. Additional comments can be found under the REINSURANCE heading of this report.

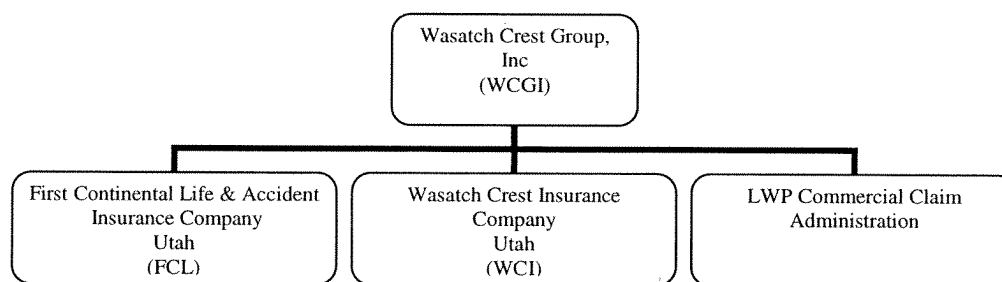
In an order dated January 14, 2003, the Utah Insurance Department ordered the Company's acquisition by Wasatch Crest Mutual Insurance Company (WCM) and for WCM to take those steps necessary to make the Company solvent.

Surplus Debentures

The Company had no surplus debentures issued, retired or in place during the current examination period or as of December 31, 2001.

AFFILIATED COMPANIES

As of December 31, 2001, the Company was 100% owned by WCGI and was a member of a holding company system. The following chart reflects the holding company affiliations:



Transactions with Affiliates

Effective January 1, 2000, WCGI and the Company entered a formalized cost sharing agreement pursuant to which WCGI provided labor, work space, equipment, data processing and other mutually agreed upon services to the Company. The agreement allocated costs pursuant to Chapter 22 of the NAIC Manual, "Accounting Practices and Procedures/Life and Accident and Health Companies." The Company agreed to reimburse WCGI for the services, labor, facilities and equipment provided on its behalf.

FIDELITY BONDS AND OTHER INSURANCE

The Company was a named insured under several insurance policies along with its parent and affiliated companies.

There was a financial institution bond with an aggregate liability of \$1,000,000, subject to a single loss limit of liability of \$1,000,000 and a single loss deductible of \$10,000. The NAIC suggested minimum amount of fidelity insurance for a company of this size was \$450,000 to \$500,000.

The Company also participated in commercial lines, commercial catastrophe, and employment practices liability insurance. The directors and officers were provided a director's and officer's and company reimbursement policy. This policy had a \$100,000 retention each claim. The limit was \$5,000,000. Overlying this policy was an excess director's and officer's and company reimbursement policy.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

As of December 31, 2001, the Company had no employees.

STATUTORY DEPOSITS

To comply with the statutes of the various state insurance departments, the following securities were on deposit as of December 31, 2001. Funds held not for the benefit of all policyholders are restricted as workers compensation funds.

<u>Type of Asset</u>	<u>Statement Value</u>	<u>Market Value</u>
Funds held not for the benefit of all policyholders:		
Georgia Department of Insurance	\$ 35,000	\$ 37,910
Idaho Department of Insurance	250,000	260,703
Louisiana Department of Insurance	100,000	100,000
Nevada Department of Insurance	100,000	104,750
South Carolina Department of Insurance	<u>700,000</u>	<u>755,153</u>
Total held not for all policyholders:	<u>\$1,185,000</u>	<u>\$1,258,516</u>
Funds held in trust for all policyholders:		
Utah Department of Insurance	<u>5,090,000</u>	<u>5,413,017</u>
Total held in trust for all policyholders:	<u>\$5,090,000</u>	<u>\$5,413,017</u>
Grand Total	<u>\$6,275,000</u>	<u>\$6,671,533</u>

Pursuant to Utah Code Annotated (U.C.A.) § 31A-4-105, the Company was required to maintain a deposit in the amount of its minimum capital requirement. The Company's minimum capital requirement in the State of Utah was \$2,000,000 as determined by the U.C.A. § 31A-5-211(2)(a). The deposits are held at Wachovia Bank in Georgia, Wells Fargo Bank in Idaho, Hibernia National Bank in Louisiana, Wells Fargo Bank in Nevada, Wachovia Bank in South Carolina, and Wells Fargo Bank in Salt Lake City, Utah.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company was authorized to transact the business of accident and health, property, liability, marine and transport, worker's compensation, vehicle liability and professional liability insurance in the State of Utah.

Territory and Plan of Operation

The Company was licensed to do business in the following states: Alabama, Arizona, California, Colorado, Georgia, Hawaii, Idaho, Nevada, New York, Oregon, South Carolina, Tennessee, Texas, Utah and Washington. The Company's license was suspended in 1999 but was revoked in May 2002, in the State of Washington. The Company's licenses in the States of Arizona and Texas have been suspended since 1993.

In accordance with the provisions of Utah Code Annotated (U.C.A.) § 31A-4-115, on April 30, 2002, the Company filed a plan of orderly withdrawal with the Utah Insurance Department. The plan of withdrawal was facilitated by the Company's inability to obtain reinsurance coverage for their worker's compensation line of business. The withdrawal event was expected to be the result of the non-renewal of policies.

The Utah Insurance Department disclosed that the Company did not have any appointed agents.

Advertising and Sales Material

The Company, in conjunction with Wasatch Crest Mutual, provided a booklet describing their Workers' Compensation program but stated that all other advertising supplies were destroyed. The Company also stated that there were no radio or television ads used between January 1, 1999, and December 31, 2001.

Treatment of Policyholders

There was no procedure manual for the handling of complaints. There was a memo describing the handling of complaints received from policyholders by employees of the Wasatch Crest Group. There were seven (7) complaints received by the Utah Insurance Department.

REINSURANCE

Assumed

The Company had a casualty retrocession agreement, effective January 1, 2001, with Swiss Reinsurance America Corporation, whereby the Company assumed the workers compensation and employers liability policies assumed by Swiss Reinsurance America Corporation from North American Specialty Insurance Company. This business was underwritten and produced by Wasatch Crest Group, for and on behalf of North American Specialty Insurance Company.

The Company had a 95% quota share agreement with Wasatch Crest Mutual Insurance Company, effective June 30, 1999, whereby the Company assumed new and renewal workers compensation policies written or assumed on or after June 30, 1999. In addition, the agreement provided for a 95% quota share participation for all workers compensation losses and loss adjustment expenses paid after the effective date arising out of any policies issued or assumed prior to June 30, 1999.

Ceded

The Company had an excess liability agreement, effective February 1, 2001, with American National Insurance Company, for coverage under its fully insured group medical policies, contracts and binders of insurance issued to Western Coal Carriers Union and Energy West Mining Company.

The Company's medical expense conversions were reinsured with Celtic Life Insurance Company. Celtic offered conversion coverage to employer groups who are self funded or fully funded with respect to group medical expense plans covering employees and their dependents. The conversion privilege was available to participants whose coverage has terminated. In addition, Celtic agreed to offer conversion coverage to employer groups who have been issued contracts of stop-loss insurance by Great American Reserve Insurance Company and have been reinsured by the Company.

The Company had a 80% quota share agreement, effective January 1, 1995, with Constitution Reinsurance Corporation and Scor Reinsurance Company, for coverage of its homeowners multiple peril, private passenger automobile liability and physical damage, glass, burglary and earthquake coverages.

The Company had a 75% quota share agreement, effective January 1, 1991, with Dorinco Reinsurance Corporation, for coverage of the business produced and underwritten by First General Insurance Agency, of Houston, Texas, and classified as fire, allied lines, extended coverage, personal inland marine and homeowners.

The Company had a 80%/65% multiple line quota share agreement and excess coverage, effective January 1, 1993, with Gerling Global Reinsurance Corp (U.S. Branch) and SCOR Reinsurance Company. The agreement covered 80% of private passenger automobile liability and all other business issued or renewed on or after January 1, 1993. The agreement covered 65% of subject business in force at January 1, 1993, except private passenger automobile liability. The excess loss coverage was up to \$500,000 on all lines except commercial fire and extended coverage which was \$1,000,000 and automobile physical damage which was \$50,000.

The Company had a 10% quota share agreement, effective December 1, 1990, with Security Insurance Company of Hartford, for all business underwritten and classified as property and casualty for losses occurring on or after the effective date, but only as respects those policies issued for the Company by R.J. Salisbury & Associates, Inc., and which were in force, issued or renewed on or after December 1, 1990. However, as respects the real estate errors & omissions business, any claim reported on or after December 1, 1990, on policies with a retroactive date of April 1, 1985 through November 30, 1990, were covered.

The Company had a 26.66% quota share agreement, effective January 1, 1992, with Security Insurance Company of Hartford, for all business underwritten and classified as property and casualty for losses occurring on or after the effective date, but only as respects those policies issued for the Company by R.J. Salisbury & Associates, Inc., and which were in force, issued or renewed on or after January 1, 1992. However, as respects the real estate errors & omissions business, any claim reported on or after January 1, 1992, on policies with a retroactive date of April 1, 1985 through November 30, 1991, were covered.

The Company had an adverse loss development cover, effective December 31, 1998, with Swiss Reinsurance America Corporation, for 100% of the net retained liability for all losses and allocated loss adjustment expenses over \$12,000,000, but not exceeding \$15,000,000, paid after the effective date arising out of any of the Company's policies issued prior to January 1, 1997.

The Company had a first combined property and casualty excess of loss agreement, effective December 1, 1990, with United Republic Reinsurance Company, Underwriters Reinsurance Company, Constitution Reinsurance Company, Security Insurance Company, and Belvedere American Reinsurance Company. The coverage was for excess loss over the Company's retention of \$150,000 for business written for the Company by R.J. Salisbury & Associates.

ACCOUNTS AND RECORDS

The accounts and records of the Company consist of a general ledger, journals, registers, statistical records, and other records normally maintained by a property and casualty insurance company. Most of the records are maintained on a mainframe electronic data processing system. Data from the

mainframe is used by the Company to prepare annual and quarterly statement exhibits, schedules, and other financial statements.

A trial balance was extracted from the accrual basis general ledger as of December 31, 2001, and the accounts were reconciled to the Company's filed annual statement. Individual ledger accounts for the years 1999 and 2000 were reconciled individually as deemed necessary.

The Company retained the services of an independent certified public accounting firm to audit its financial and operating records for the 1999, 2000 and 2001 Annual Statement reporting periods.

Item nine, contained in the general section of the *Annual Statement Instructions* for property and casualty companies promulgated by the National Association of Insurance Commissioners (NAIC), states, "If this report does not contain the information asked for in the blank or are not prepared in accordance with these instructions, it will not be considered filed." In addition, Utah Code Annotated (UCA) § 31A-2-202(6) requires that "All information submitted to the commissioner shall be accurate and complete."

During the review of the Company's operations, the following record keeping deficiencies were noted:

- The Company did not produce certain requested information during the course of this examination. Some of the information is specifically referenced below. The Company's rationale for not providing the requested information was the inability to do so.
- The Company did not provide copies of cancelled checks requested during the examination. Therefore, authorized signatures, alterations, irregular endorsements and date paid could not be verified.
- The outstanding drafts contained unclaimed property totaling \$152,574, which should have been reported to the State of Utah Treasurer's Office, pursuant to Utah Annotated Code (U.C.A.) § 31A-4-110, Section 67-4a-301 and Section 67-4a-201(2)(b).
- Wasatch Crest Group, Inc. did not provide the examination with all of the databases that comprises the accident and health paid claims. The lack of being provided all databases prevented the examination from accurately identifying the direct claims paid for each Company. Additionally the lack of all paid claims information resulted in the examination not being able to reconcile the paid claim databases to the actuarial lag schedule provided to the actuary to determine the incurred but not reported reserves.
- Wasatch Crest Group, Inc. was unable to provide the examination a database from the American Group Administrators, Inc., a third party administrator, that indicated which Company the respective claim belonged to. The examination attempted to identify which Company a respective claim belonged to by obtaining a sub medical claims register, but was unsuccessful in obtaining the sub medical claims register. The inability to provide records for a specific company does not comply with Utah Code Annotated (UCA) § 31A-2-203(1)(c).
- Wasatch Crest Group, Inc. was unable to provide, on behalf of the Company, a reconciliation of a material difference between the amount of premium, for workers compensation premium reported as assumed and the amount of premium reported as being ceded to the Company.

FINANCIAL STATEMENTS

The Company's financial condition as of December 31, 2001, and the results of its operations during the twelve months then ended, as determined by examination, are reported in the following financial statements:

Balance Sheet as of December 31, 2001

Summary of Operations – For the Year Ended

December 31, 2001

Capital and Surplus Account – for the Years 1999 through 2001

Wasatch Crest Insurance Company
Balance Sheet as of
December 31, 2001

ASSETS

	<u>Amount</u>	<u>Notes</u>
Bonds	\$32,350,108	
Cash and short-term investments	3,346,009	
Premiums and agents' balances in course of collection	91,275	
Reinsurance recoverable	175,825	
Interest income due and accrued	385,364	
Receivable from parent, subsidiaries and affiliates	<u>19,513</u>	
 TOTAL ASSETS	 <u><u>36,368,094</u></u>	

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	37,429,373	(1)
Reinsurance payable on paid losses and LAE	376,501	
Loss adjustment expenses	4,640,093	(1)
Commissions payable	14,105	
Other expenses	58,410	
Taxes, licenses and fees	538,872	
Unearned premiums	428,029	
Ceded reinsurance premiums payable	538,940	
Funds held by company under reinsurance treaties	1,732,383	
Amounts withheld or retained by company for accounts of others	216,794	
Drafts Outstanding	158,949	
Payable to parent, subsidiaries and affiliates	55,257	
Retroactive reinsurance reserve	<u>(4,000,363)</u>	
TOTAL LIABILITIES	<u>42,187,343</u>	
 Retroactive reinsurance special surplus	 3,593,760	
Common capital stock	2,250,000	(2)
Gross paid in and contributed surplus	138,638,143	(3)
Unassigned funds	<u>(155,502,418)</u>	
Surplus as regards policyholders	<u>(5,819,249)</u>	(4)
 TOTAL LIABILITIES AND SURPLUS	 <u><u>\$ 36,368,094</u></u>	

Wasatch Crest Insurance Company
Summary of Operations
for the Year Ended December 31, 2001

UNDERWRITING INCOME

	<u>Amount</u>
Premiums earned	\$39,410,891
Deductions:	
Losses incurred	38,246,134
Loss expenses incurred	6,342,500
Other underwriting expenses incurred	<u>10,399,164</u>
Total underwriting deductions	<u>54,987,798</u>
Net underwriting gain	<u>(15,576,907)</u>

INVESTMENT INCOME

Net investment income earned	1,756,952
Net realized capital gains	<u>(66,596)</u>
Net investment gain	<u>1,690,356</u>

OTHER INCOME

Aggregate write-ins for miscellaneous income: recovery of balances charged off	<u>100,713</u>
Total other income	<u>100,713</u>
Net income before dividends to policyholders and before federal income tax	(13,785,838)
Dividends to policyholders	<u>-0-</u>
Net income after dividends to policyholders but before federal income taxes	(13,785,838)
Federal income taxes incurred	<u>-0-</u>
Net income	<u><u>\$(13,785,838)</u></u>

Wasatch Crest Insurance Company
Capital and Surplus Account
for the Years 1999 through 2001

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Surplus as regards policyholders, December 31 Prior year	\$ 4,331,584	\$ 9,170,953 ⁽⁴⁾	\$ 7,821,657
Net income	(1,072,120)	(1,544,364)	(13,785,838)
Net unrealized capital gains or (losses)			
Change in nonadmitted assets	276,030	(73,819)	29,666
Change in provision for reinsurance	109,083	268,887	115,266
Change in excess of statutory reserves over statement reserves			
Cumulative effect of accounting principles			
Change in surplus as regards policyholders for The year	<u>(687,007)</u>	<u>(1,349,296)</u>	<u>(13,640,906)</u>
Surplus as regards policyholders, December 31 Current year	<u>\$ 3,644,577</u>	<u>\$ 7,821,657</u>	<u>\$ (5,819,249)</u>

COMMENTS ON FINANCIAL STATEMENT

(1) Losses and loss adjustment expenses

\$42,069,466

The liabilities for losses and loss adjustment expenses reported by the Company were increased by \$8,899,031 in aggregate. The increase is a composite of the adjustments identified in the following schedule:

<u>Description</u>	<u>Per Company</u>	<u>Per Examination</u>	<u>Change in Surplus Inc. (Dec.)</u>
Losses	\$ 30,563,093	\$42,214,537	\$(11,651,444)
Surplus available to pay WCM losses assumed		(4,785,164)	(4,785,164)
	<u>\$ 30,563,093</u>	<u>\$ 37,429,373</u>	<u>(6,866,280)</u>
Loss adjustment expenses (LAE)	2,607,342	5,056,195	(2,448,853)
SURPLUS AVAILABLE TO PAY WCM LAE		(416,102)	(416,102)
	<u>2,607,342</u>	<u>4,640,093</u>	<u>(2,032,751)</u>
Total changes	<u>\$ 33,170,435</u>	<u>\$ 42,069,466</u>	<u>\$ (8,899,031)</u>

Calculation of surplus available to pay
losses & LAE assumed from WCM:

Losses & LAE assumed from WCM	16,221,781
Surplus considering WCM assumption	(11,020,515)
Surplus available to pay WCM losses & LAE	<u>5,201,266</u>
Losses (92%)	<u>4,785,164</u>
LAE (8%)	416,102

The differences in losses and loss adjustment expenses reported by the Company and those determined by examination were primarily due to adverse development on a block of business assumed from North American Specialty. Adjustment was made to consider the amount of surplus available to pay the Company's remaining obligation, reinsurance assumed from Wasatch Crest Mutual Insurance Company (WCM). The ratios applied for losses and LAE were developed by Taylor-Walker & Associates, the actuarial firm retained for examination purposes.

(2) Common capital stock

\$2,250,000

The captioned amount was \$2,500,000 less than the amount reflected on the 2001 annual statement. The annual statements for 1999, 2000 and 2001 reported common capital stock as follows:

<u>Year</u>	<u>Number of Shares Auth.</u>	<u>Number of Shares Outstanding</u>	<u>Par Value Per Share</u>	<u>Common Stock</u>
1999	2,250,000	225,000	\$ 10.00	\$2,250,000
2000	2,250,000	475,000	10,000.00	\$4,750,000

2001	4,750,000	4,750,000	1.00	\$4,750,000
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The Company did not provide the stock certificate for WCI and the corporate records did not indicate that the common stock par value had changed during the examination period.

Subsequent to the merger with Wasatch Crest Casualty Insurance Company (WCCI), the capital stock was increased to the current \$4,750,000 value. The Deloitte & Touche audited financial statements for 2000 and 2001, noted that the common capital stock value should have been reflected as \$2,250,000 with the excess \$2,500,000 reclassified as gross paid in and contributed surplus. For purposes of this examination, the amounts were reclassified to properly reflect the common stock value of the Company.

(3) Gross paid in and contributed surplus **\$138,638,143**

The captioned amount was \$2,500,000 more than the amount reflected on the 2001 annual statement of \$136,138,143. The adjustment was a reclassification of \$2,500,000 from Common capital stock.

4) Surplus as regards policyholders **\$(5,819,249)**

For examination purposes, the Company's capital and surplus was determined to be \$(5,819,249), or \$8,899,031 less than reported on the 2001 annual statement. The following schedule indicates the changes to the Company's accounts pursuant to examination findings:

	Annual <u>Statement</u>	<u>Examination</u>	<u>Change</u>	<u>Notes</u>
Losses	\$ 30,563,093	\$ 37,429,373	(6,866,280)	(1)
Loss adjustment expenses	2,607,342	4,640,093	(2,032,751)	(1)
Common capital stock	4,750,000	2,250,000	2,500,000	(2)
Gross paid in and contributed surplus	136,138,143	138,638,143	(2,500,000)	(3)
Total changes in capital surplus			\$ (8,899,031)	
Capital and surplus per Company			3,079,782	
Capital and surplus per Examination			<u>\$(5,819,249)</u>	

The Company's minimum capital requirement at December 31, 2001, was \$2,000,000 as defined in U.C.A. § 31A-5-211.

As of December 31, 2001, in accordance with U.C.A. 31A-17, Part VI, the Company reported total adjusted Risk-Based Capital (RBC) in the amount of \$3,079,782 and an authorized control level RBC in the amount of \$2,243,201, which placed the Company at the Regulatory Action Level. The Company submitted an RBC plan to the Utah Department of Insurance on April 3, 2002. The Company's total adjusted capital pursuant to examination was \$(5,819,249).

Pursuant to a Request for Waiver of Form A, accepted by the Utah Department of Insurance under order dated December 19, 2000, Wasatch Crest Casualty Insurance Company (WCC) was merged into WCI. Both entities were wholly owned subsidiaries of Wasatch Crest Group, Inc. (WCGI). WCI was the surviving entity from the merger. The "Surplus as regards policyholders, December 31 prior year" balance reported in the Capital and Surplus Account contained in the 2000 Annual Statement was increased by WCC surplus as regards policyholders as of December 31, 1999, to reflect the merger.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

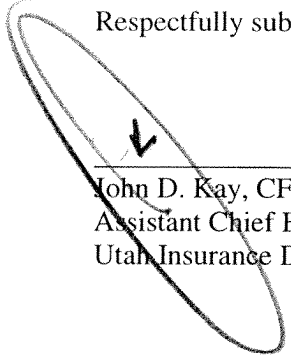
Items of significance or special interest contained in this report are summarized below:

1. During the review of the Company's operations, record keeping and control deficiencies were noted. (ACCOUNTS AND RECORDS)
2. The liabilities of losses and loss adjustment expenses were determined to be significantly greater than reported by the Company. The increase in reserves created a condition of financial insolvency. **(COMMENTS ON FINANCIAL STATEMENT - (1) Losses and Loss Adjustment Expenses)**
3. Subsequent to the merger with Wasatch Crest Casualty Insurance Company (WCCI), the capital stock was increased to the current \$4,750,000 value. The Deloitte & Touche audited financial statements for 2000 and 2001, noted that the common capital stock value should have been reflected as \$2,250,000 with the excess \$2,500,000 reclassified as gross paid in and contributed surplus. For purposes of this examination, the amounts were reclassified to properly reflect the common stock value of the Company. **(COMMENTS ON FINANCIAL STATEMENT - (2) Common Capital Stock)**
4. The Gross paid in and contributed surplus was increased by \$2,500,000 as a result of a reclassification of \$2,500,000 from Common capital stock. **(COMMENTS ON FINANCIAL STATEMENT - (3) Gross paid in and contributed surplus).**
5. As of December 31, 2001, the Company's total adjusted capital, pursuant to examination was determined to be \$(5,819,249), \$8,899,031 less than reported in its 2001 annual statement. The Company reported an authorized control level risk based capital requirement of \$2,243,201 in the statement. The Company's minimum capital requirement was \$2,000,000. **(COMMENTS ON FINANCIAL STATEMENT - (4) Surplus as regards policyholders).**
6. Subsequent events:
 - a. In accordance with the provisions of Utah Code Annotated (U.C.A.) §31A-4-115, the Company filed a "plan of orderly withdrawal" on April 30, 2002. (Territory and Plan of Operation)
 - b. Company was placed under supervision on October 16, 2002. (History)
 - c. In an order dated January 14, 2003, the Utah Insurance Department ordered the Company's acquisition by Wasatch Crest Mutual Insurance Company (WCM) and for WCM to take those steps necessary to make the Company solvent. (Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance).

CONCLUSION

In addition to the undersigned, Allen J. Hart, CFE, Senior Examiner-Utah, and Faanu Laufiso, Examiner-Utah, Robert C. Murphy, CFE, CIE, FLMI, Examiner-In-Charge, and Taylor-Walker & Associates, Inc.-Actuaries, join the undersigned in acknowledging the cooperation and assistance extended by the representatives of the Company during this examination.

Respectfully submitted,



John D. Kay, CFE, CIE
Assistant Chief Examiner
Utah Insurance Department